

Campbell Capital Management

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Dear Money Management Client:

The global synchronized economic expansion experienced in 2017 did not carry over into this year. Forward earnings estimates for US companies continue to rise, but most of our overseas trading partners are experiencing decelerating earnings and falling stock markets this year. S&P 500 earnings were up strongly in the first half of 2018, thanks to recent tax cuts and regulatory changes, but worries about global trade and rising interest rates have kept our stock market in check.

Many strategists have been warning that this 10 year old economic expansion is long in the tooth and therefore must end. But as we have said before; expansions don't die from old age, they die from the business cycle overheating and policy mistakes. "Overheating" is essentially an inflationary event, which leads the Federal Reserve to make the "mistake" of overtightening monetary policy.

Recently, business news articles and the Fed's minutes have been full of references to an inverted yield curve, where short term interest rates are pushed above long term interest rates. It's an important topic because yield curve inversions have preceded all but one recession since 1955, and recessions have never been kind to stock markets.

Monetary policy is currently accommodative and short term interest rates are less than long term rates. But with unemployment at record lows and wages and commodity prices rising, history suggests we keep a close eye on the yield curve moving forward.

Small business optimism is at its best level since 1983. All components of a NFIB survey improved and employers said they expect a better economy with higher sales moving forward. Let's hope the tariff and trade war issues get resolved amicably.

As always, we remain committed to a conservative investment philosophy, which emphasizes the preservation of capital. If you have any questions or would like to discuss your portfolio, please do not hesitate to call.

Very truly yours,

Clay Campbell, CPA